

December 28, 1999

BANGOR HYDRO-ELECTRIC COMPANY
Affiliated Interest Transaction and Reorganization
to Transfer its Care Taker Home Security
Monitoring Business into a Separate Subsidiary

SUPPLEMENTAL ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

On November 5, 1999, Bangor Hydro-Electric Company (BHE or the Company) requested that the Commission clarify its January 14, 1999 Order in Docket No. 98-555. That Order approved a stipulation allowing BHE to invest in an unregulated venture, Care Taker. Specifically, the Company seeks to confirm that improvements in its corporate credit rating during 1999 allow the investment limit specified in the stipulation to be superseded by the limit allowed in Chapter 820, section 5(A) of the Commission's rules (5% of consolidated capitalization). This Supplemental Order confirms BHE's understanding and acknowledges that the Company may invest up to 5% of its consolidated capitalization in unregulated or non-core ventures without prior approval from the Commission.

II. BACKGROUND & DISCUSSION

In our Order dated January 14, 1999, we approved a stipulation between the Office of the Public Advocate (OPA) and the Company that allowed BHE to invest up to \$680,000 in its unregulated CareTaker home security subsidiary. The stipulation allowed BHE's investment despite the fact that the Company's bond rating was below investment grade (at BB from Standard & Poor's) at the time. In doing so, we waived the provision of Chapter 820, section 5 (B) of the Commission's rules, that generally limits such investments to utilities with investment grade bond ratings. In approving the stipulation we found that BHE's financial condition had improved since its last rate case, that the total investment in non-core ventures was of "moderate size" and that the sale of the Company's generation assets was likely to allow BHE to attain an investment grade bond rating in the future, thus warranting a waiver of Chapter 820. It was understood that any further BHE investment in CareTaker would require Commission approval under 35-A M.R.S.A. § 708.

In our July 14, 1999 Advisory Ruling in Docket No. 99-305, *Request for Advisory Ruling on Whether Bangor Hydro-Electric Company Meets the Requirements of Section 5(A) of Chapter 820 of the Commission's Rules*, regarding BHE's investment in its Bangor Gas subsidiary, we concluded that BHE's credit rating met the definition of "investment grade" as the term is used in Chapter 820.

We reached this conclusion after Standard & Poor's (S&P) raised BHE's senior secured debt rating to BBB- on February 25, 1999. At the same time, S&P assigned BHE an overall corporate credit rating (CCR) of only BB+, which is below investment grade. This "split" rating prompted BHE to seek the Advisory Ruling. On August 13, 1999, BHE received a second upgrade from S&P, and its senior secured debt rating was raised to BBB and its overall CCR was raised to BBB-. While the ratings continued to be split, both ratings are "investment grade."

BHE has noted that the OPA, the only active intervenor (CMP intervened but did not actively participate) in the previous phase of this Docket, agrees that Section 5(A) of Chapter 820 should govern current and future investments in CareTaker so long as BHE maintains an investment grade bond rating. Therefore we will negate the investment limit provision specified in the earlier stipulation in this Docket unless and until BHE loses its investment grade status.

Accordingly, we

O R D E R

1. That paragraph 3 of our January 14, 1999 Order in this Docket is superseded by the requirements specified in Chapter 820, section 5(A) of the Commission's rules until or unless BHE's credit rating should fall below investment grade as defined in Chapter 820.

2. All other provisions of our January 14, 1999 Order in this Docket remain in full force and effect.

Dated at Augusta, Maine, this 28th day of December, 1999.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR:

Welch
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

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